



**Financial planning  
for buying property  
in superannuation**

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# Introduction

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With the under par performance of superannuation over past years, many Australians have been looking at ways to better manage and control the outcomes of their super funds. One of these is the creation of a self-managed super fund (SMSF). Compared to a standard accumulation fund, the SMSF structure allows you more control over how your funds are invested. This includes the flexibility for independent property investment, whereas most accumulation super funds don't allow this.

With the skyrocketing price of real estate in Australia, it's not surprising that property has become an increasingly popular SMSF investment. Using a SMSF to invest in real estate can be highly rewarding, but it also can be complex and not suited to everyone. Regardless, sound advice is always recommended.

Whether you're simply making initial enquiries or are ready to establish your own SMSF, we can help ensure you make informed decisions on both the establishment of the SMSF and any property investment you may be considering.

It is our hope this eBook will clarify key points on SMSFs and provide answers to queries on property investment through this structure.



# What is a SMSF?

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In simple terms a SMSF, like other superannuation structures, has the end goal of providing a financial return to its members in retirement. The main difference is that in a SMSF, members are also the trustees of the fund.

Of course like any super fund, SMSFs are bound by rules and regulations that need to be adhered to. But if the SMSF fund remains compliant there are a number of tax advantages that can be enjoyed including:

- A flat 15 per cent tax on earned income in the SMSF
- A flat 10 per cent rate of Capital Gains Tax on investments held for more than one year

It is essential the SMSF remains compliant. Using a financial planner can help ensure this happens and you don't attract unnecessary fines or Australian Taxation Office attention.



# Purchasing property inside SMSFs

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Purchasing property inside your SMSF has specific benefits compared to investing in property outside of the fund. These include:

## Tax advantages

- Transactions made inside the SMSF are taxed at 15 per cent as opposed to rates of up to 45 per cent for investments outside the fund
- If you hold property inside the SMSF for 12 months or more, your capital gains tax rate is reduced to 10 per cent while you're still in the accumulation phase. This may be significantly lower than the tax you would pay if you held the asset outside of superannuation
- If you sell your property while in a pension phase, you may not be liable to pay any Capital Gains Tax
- You may be eligible for certain tax deductions for paying off your loan

## Other advantages

- Buying property and other investment types inside a SMSF is an effective way of diversifying and spreading risk in your asset portfolio
- Assets held within a SMSF are generally protected from debt and bankruptcy proceedings
- Using borrowed funds to purchase property that increases in value will increase your retirement savings
- A SMSF can allow you to purchase property that you may not have been able to afford outside the fund



# SMSF considerations

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While easy to become excited about the benefits a SMSF may provide, it's important to be aware that as with any investment, there are challenges and risks. Some of the main ones are detailed below.

## Higher management and administration

A SMSF requires on-going administration and management. There are specific regulations and laws governing a SMSF that need to be adhered to in the setting up and on-going operation of the fund.

Unlike other superannuation funds, you are trustee of your SMSF so ultimately responsible for its operation. There are severe penalties imposed if a SMSF does not comply with the required reporting, regulations and legislation.

It is common for those that have a SMSF to engage professionals to assist in the running of the fund. From accountants to financial planners, their input can be valuable but their costs need to be considered in your on-going budget.

## More complex financing

Securing a property loan inside a SMSF can be more challenging than one outside the SMSF structure. It is recommended you speak to a professional financial planner to assist you in this process.

## Greater responsibility

As the trustee of a SMSF, you have a responsibility by law to prepare and implement an investment strategy for your fund and to review it on an on-going basis. You are also required to make and document decisions about investing through the fund and to monitor performance. For many this is simply too challenging or time-consuming and they seek professional assistance.

# Is a SMSF for you?

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For many, having the freedom and flexibility to invest super funds in assets such as property is very attractive. However it's important to remember that a SMSF may not suit everyone's circumstances.

From a purely financial perspective, there are some minimum considerations for it to be viable.

These include:

- A minimum existing fund amount of \$250,000
- A medium to long-term timeframe (ideally 10 or more years from intended retirement)
- The ability to be able to make regular contributions to your SMSF through employment or another stable income source
- Being prepared to manage the extra responsibilities of a SMSF trustee as required by law

While the tasks and responsibilities of a SMSF are manageable for some, it's important you are aware it will add considerable work and responsibility to your day-to-day life. It will also add cost via the payment of fees for set up and on-going management.

If you're comfortable with this and the financial considerations can be met, a SMSF may be the right option for you. If so, we encourage you to talk to a financial planner who can provide objective and unbiased advice on getting your SMSF established.



# Case study: Michael's experience

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Michael is an engineer in his late 40s and had accumulated a sizable superannuation balance. With a steady income, he wanted to take more control of his retirement savings and was particularly interested in saving tax by investing in property through his superannuation.

Michael saw a Financial Spectrum financial planner to learn about SMSFs and if they were right for his situation. His financial planner helped him:

- Evaluate his current superannuation and assess whether a SMSF was appropriate for his circumstances
- Set up a SMSF and refer him to other professionals for ongoing assistance in the running of his fund
- Formulate and implement an investment strategy inside his SMSF
- Replace the inadequate insurance in his former super fund
- Find a mortgage specialist to assist in obtaining finance

Thanks to the advice of his financial planner, Michael was able to establish his own SMSF and now has the freedom to invest in property using his fund. He has also managed to achieve substantial tax savings and has boosted his super balance for retirement.



# How Financial Spectrum can help

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Now you've read this eBook you're hopefully more comfortable with some of the advantages, challenges and responsibilities of a SMSF. While complex, if it suits your situation it can be a great investment tool for funding your retirement.

At Financial Spectrum, we help guide you every step of the way on your financial journey. Our financial planners will always ensure you make informed financial decisions at all phases of your life.



# About Financial Spectrum

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Financial Spectrum is an privately owned financial planning practice. We develop tailored financial strategies to help you build your wealth and achieve your lifestyle aspirations.

We offer so much more than investing. We take the time to understand you and then help you make the right decisions to achieve the future you're aspiring to.

## We can help you to:

- Plan for the future
- Build your investment strategy
- Grow your personal wealth
- Simplify your budget
- Minimise bad debt
- Increase your super
- Reduce your tax
- Protect your family

Let us help you take control of your finances, build your wealth and achieve your future lifestyle aspirations. Contact us for a complimentary, no obligation meeting today.





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